



THE PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY ANNOUNCEMENT OF 2000 INTERIM RESULTS

26th September 2000

The Board of The Peninsular and Oriental Steam Navigation Company today announced interim results for 2000.

The key figures are as follows:

	Six months to 30 June 2000 £m	Six months to 30 June 1999 £m
Total operating profit:		
Future P&O	148.6	121.1
P&O Princess Cruises	109.3	99.3
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Continuing operations	257.9	220.4
Discontinued operations	-	28.6
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	257.9	249.0
	<hr/>	<hr/>
Net interest	(65.8)	(75.0)
Headline profit	192.1	174.0
Profit on ordinary activities before taxation	192.1	171.7
Profit attributable to stockholders	150.7	129.2
Earnings per £1 nominal of deferred stock	22.3p	19.4p
Headline earnings per £1 nominal of deferred stock	22.8p	19.9p

All figures have been prepared in accordance with FRS15 and UITF abstract 24. The comparative figures have been restated accordingly.

CHAIRMAN'S INTERIM STATEMENT

2000 Interim results and dividend

I am pleased to report that total operating profit for the six months to 30 June 2000 was £257.9 million (1999 restated £249.0 million). A strong performance by P&O Ports and P&O Nedlloyd more than offset a lower P&O Ferries result and the reduction in operating profit following the sale of some businesses in 1999. These good results were achieved despite higher fuel prices that cost the Group approximately £50 million compared to the first half last year.

After interest of £65.8 million (£75.0 million), headline profit was £192.1 million (restated £174.0 million). Profit before tax of £192.1 million was 12 per cent up on the same period in 1999 (restated £171.7 million). Profit attributable to stockholders was £150.7 million (restated £129.2 million). Earnings per £1 nominal of deferred stock increased by 15 per cent to 22.3 pence (restated 19.4 pence).

Your Board has resolved to pay an unchanged interim dividend of 13.5 pence per £1 nominal of deferred stock. The dividend will be paid on 24 November 2000 to deferred stockholders on the register at the close of business on 6 October 2000.

Demerger

Your Board announced on 3 February 2000 that it intended to demerge the Group's cruises business to form a separate publicly quoted company while the future P&O would focus on its high return logistics activities. We have made good progress and expect to complete the demerger as stated in our original timetable. Subject to approval at an Extraordinary General Meeting of P&O stockholders on 20 October 2000, separate dealings in P&O deferred stock and P&O Princess Cruises shares are expected to commence on 23 October 2000.

The reasons for the demerger remain compelling. The Group's businesses are focusing increasingly on two key areas – logistics and cruising. Their scale has increased considerably in the last few years. They have different financial and operating characteristics as well as their own capital requirements. The demerger will enable both businesses to pursue the strategies that best meet their long term objectives and accelerate their future growth. It should also enable their values to be fully recognised by the market.

The two companies will have strong balance sheets. At 30 June 2000, the net borrowings of the future P&O and P&O Princess were £913 million and £552 million respectively, giving a debt/equity ratio of 54 per cent and 36 per cent respectively. Both companies will also benefit in due course from the UK tonnage tax for which legislation has recently been enacted. This means that profits from shipping activities will be largely tax free. As a result, the future P&O will have an initial tax rate of approximately 25 per cent, which will vary in future depending on the proportion of profits derived from its different businesses, and P&O Princess approximately five per cent.

We are today filing with the UK Listing Authority the two key documents relating to the proposed demerger – the P&O Demerger Circular and the P&O Princess Cruises plc Listing Particulars. They contain full details of the future P&O and of the new cruise company. They are available on P&O's internet site (www.p-and-o.com) and are being posted to stockholders. In addition a registration statement is being filed with the Securities Exchange Commission in Washington prior to an application for listing of P&O Princess Cruises on the New York Stock Exchange.

Future P&O

Following the demerger, the future P&O will concentrate on those logistics and transportation businesses where it has a strong market position and excellent growth opportunities. Overall these businesses achieved good results for the first half year.

P&O Ports is one of the world's leading international container terminal operators, with interests in 28 terminals in 16 countries. In 1999 it achieved container throughput of 5.8 million TEUs (twenty foot equivalent units). It expects to increase this by over a third to approximately 8 million TEUs in 2000, mainly from its new investments but also through organic growth. In the first half year operating profit increased by approximately 50 per cent, from £26.9 million to £40.3 million. Particularly strong performances were achieved in Buenos Aires, Manila, Mumbai and Southampton and in the US. The

result would have been even further ahead but for our container terminals in Australia where the full benefit of new work practices, resulting in greatly improved productivity, is only now coming through. The prospects for P&O Ports for the remainder of the year are highly positive.

Further container terminal investment will be a main area for future capital expenditure by the Group. Container traffic volumes have grown by nearly ten per cent per annum over the last decade as world trade expands, barriers to trade are reduced and an increasing proportion of goods becomes containerised. The recent investments by P&O Ports in Asia are expected to achieve strong levels of organic growth combined with further improvements as we introduce world class productivity levels. At the same time there are considerable further opportunities in Europe and the Americas.

As expected, P&O Ferries saw a more demanding trading environment during the first half of this year with the loss of the duty free concession and a 75 per cent increase in the price of fuel which cost an extra £10 million. Despite these factors, our joint venture P&O Stena Line, in which we have a 60 per cent economic interest, achieved a good result. Revenue rates for tourist vehicles increased, mainly as a result of the change in mix following the reduced carryings of promotional traffic. The volume of freight units carried reduced slightly but this was offset by underlying rate increases. Elsewhere in P&O Ferries, the effect of higher fuel prices was more pronounced because of the greater number of ships. Freight volumes were good and rates were higher although revenue was affected by the weak Euro. Tourist vehicle carryings were level, with slightly improved rates.

Since June, P&O Stena Line has achieved reasonable volumes and some further rate improvements, while the remainder of our ferry business is seeing relatively flat trading conditions. In the longer term, we anticipate market growth for both tourist vehicles and freight in excess of five per cent a year. P&O is a leading name in the ferry industry. We will continue to upgrade our product through new investment, extend our e-commerce and systems capabilities and seek further opportunities to reduce costs.

P&O Cold Logistics achieved a significant profit improvement, primarily from organic growth. Our US business did particularly well. Having established a strong position in Southern California, our recent acquisitions in Texas have given us one of the best cold distribution networks in the South West. There was improved profitability across the Australian facilities and in South America.

In P&O Trans European the unit loads part of the business saw reduced earnings as a result of the weak Euro and higher fuel costs. This was largely offset by a strong performance in contract logistics. Our pan-European logistics coverage was further strengthened by small additional investments in Spain and Italy. We also achieved some major new contracts with blue chip companies.

As reported on 17 August, our 50 per cent joint venture P&O Nedlloyd saw a major turnaround in the first half year with an operating profit of \$30 million (P&O share £10 million) compared to a loss of \$40 million (P&O share £13 million) for the first half of 1999. This was despite additional fuel costs of \$88 million (P&O share £28 million). It is the best first half result since P&O Nedlloyd commenced trading. A key feature, which also benefited P&O Ports, was strong volume growth, with P&O Nedlloyd achieving its highest ever throughput for the first six months of the year, even before the peak season in the second half year. There were also increased revenue rates and further cost savings.

We expect full year profits for 2000 for P&O Nedlloyd to be significantly ahead of last year. Looking further ahead, most forecasters agree that the balance of supply and demand over the next two years for the industry is positive. The fundamental driver for this business is the growth of world trade which is itself a multiple of growth in world GDP. In the light of the current transformation in the sector we are taking the opportunity to review how best to maximise the benefit to our stockholders. We are continuing to examine options for a listing while bearing in mind P&O Nedlloyd's strong synergy with P&O Ports and the opportunities to grow its logistics capabilities on the back of its extensive relationships with major international customers. We remain proactive towards further industry consolidation.

Associated Bulk Carriers is also seeing a major improvement in trading. Operating profit for the first half year was £3 million (compared to a loss of £10 million for the first half of 1999). Average capesize freight rates are now over \$18,000 a day. This compares to an average of \$10,000 for 1999. The outlook is similarly much more positive. We are actively examining options for reducing our interest in the business.

P&O Properties achieved another strong result. Property development contributed significantly to this, with Boston and Denver doing particularly well. We are continuing to build out and sell down the portfolio which

contains many profitable opportunities. With our excellent track record and strong management we will retain a capability in this area, primarily to complement our container terminal business as in the major Shell Haven redevelopment that we announced earlier this month, but with a much lower asset base. The book value of our investment property portfolio, now much reduced following the completion of the sale of the major part of our UK assets earlier this year, currently stands at approximately £130 million. We expect to have completed the disposal of most of the remainder of the portfolio during the coming year.

Overall the businesses of the future P&O have made a strong start to the second half year. Looking further ahead, the prospects are highly positive. In our chosen areas of business we are a market leader. Through being part of the future P&O, our businesses will derive additional competitive advantages from the international strength of the P&O brand, our strong balance sheet and access to our global coverage, knowledge and skill base in logistics and transportation.

Future investment will be concentrated on those areas offering the highest returns and the greatest growth prospects. Within the more focused future P&O we will be able to manage the Group more closely than was possible with a wider range of businesses. It will be a priority to realise the significant opportunities represented by the management skills and customer bases of our businesses which are both overlapping and complementary. Individual business strategies will be more closely aligned around the areas of sectoral or geographical concentration.

The overriding priority will be to maximise value for our stockholders. Over the past five years we have taken some major steps to achieve this, including the sale of businesses such as Bovis Homes, Earls Court Olympia and Bovis Construction, disposal of over £1 billion of investment property, the creation of joint ventures in our container shipping and cross-Channel ferry businesses, and now the demerger of our cruise business. There is considerable value within the future P&O. We will continue to add to this through further investment. At the same time we will take whatever steps are necessary to ensure that our stockholders see the full value of our businesses reflected in our stock price.

P&O Princess Cruises

With the cruise division being demerged to form P&O Princess Cruises, I thought it would be helpful to go into somewhat more detail than normal on the business' results and outlook, as well as comment on our position within the industry. The results for the business, and the operating statistics for the second quarter are set out in the appendix to the attached interim results.

P&O Princess had a successful first half recording an operating profit of \$168.4 million (£109.3 million), an increase of eight per cent over the same period in 1999. But for the increase in oil prices, which added \$19 million to fuel costs, operating profit would have increased by 20 per cent.

Capacity for the first half was 19 per cent higher than that for the same period in 1999. Organic growth was 11 per cent resulting from the introduction of Ocean Princess and Aurora, both of which came into service this year. Capacity was further increased by the inclusion of the two ships in the German market, Aida (acquired in November 1999) and Arkona, operated by Seetours (acquired at the beginning of April 2000). Occupancy was largely unchanged at 99.0 per cent.

Net revenue yields, on a like for like basis, were one per cent below those in 1999 for both the second quarter and the first half in total. In general, yields across all the principal trades for Princess and P&O Cruises were in line with 1999, apart from some weakness in the trans Panama Canal trade. Fair Princess has had a difficult final season in the Australian market, resulting in an operating loss from this business in the first half of \$5 million.

P&O Princess has continued to trade well during the third quarter, but market conditions for the fourth quarter are more challenging.

In the North American market, Princess Cruises has had another successful summer season in the Alaskan and European trades. In Alaska yields were consistent with 1999 and a record number of cruise tours were carried. We continue to reinforce our position as a market leader in this trade with our Gulf of Alaska deployment and purpose built wilderness lodges. In Europe yields were ahead of the previous year with all three ships deployed there, Grand, Crown and Royal Princesses, doing well. The two early generation ships in the Princess fleet, Pacific Princess and Sky Princess, did not perform as well.

Princess Cruises continues to experience competitive pricing conditions in the fourth quarter in the Caribbean and Transcanal trades. Demand in the fourth quarter is seasonally lower than at other times of the year, whilst capacity in the Caribbean will be up some 20 per cent for the industry as a whole, and 40 per cent for Princess. As a result, we are seeing significantly lower yields, particularly in the southern Caribbean, although Grand Princess continues to enjoy a substantial price premium. In the Transcanal, representing around 25 per cent of Princess' capacity in the final quarter, demand has been lower than last year, with yields consequently reduced.

Since P&O Cruises' introduction of Aurora in April, we have had some 45 per cent more capacity in the UK market. The new ship has been very well received and this significant increase in capacity has been absorbed with what we expect will be only a two per cent reduction in overall net revenue yields, which we see as a testament to the strength of the UK cruise market and our position within it.

In Germany, Aida is further strengthening its already high level of brand awareness. It continues to trade well, with occupancy and yields higher than in 1999. In Australia, Fair Princess' difficult final season, arising partly from reduced travel because of the Olympics, will impact the remainder of the year. Fair Princess has now been sold and will be replaced in the Australian market by Pacific Sky, formerly Sky Princess, from November.

We expect that the year on year effect of increased oil prices will be less in the second half. Nevertheless, in the third quarter unit fuel costs have been running some 30 per cent above the same period in 1999 and, if this continues, fuel costs for the year will be increased by some \$30 million. Some 25 per cent of our profits come from our European operations so the relative strength of the US dollar against sterling and the Euro will have an effect when the figures are translated for consolidation into our overall US dollar results. The benefit of the Millennium cruises has, of course, fallen into the first quarter this year, adding some \$11 million to the results, whereas last year, when the benefit was \$18 million, it fell in the final quarter.

Overall we are anticipating net revenue yields for the year being around four per cent lower than 1999, on a like for like basis, with most of this reduction being attributable to the final quarter. Princess Cruises' and P&O Cruises' return on operating capital remains strong, especially considering this return is, in effect, largely tax free. The inclusion of Aida and Seetours, where we are undergoing significant development, and the poor result from Fair Princess, will bring down the overall average return on capital. Nevertheless, our return remains comfortably in excess of our cost of capital.

Looking ahead to 2001, Princess Cruises is continuing to see competitive pressure for the first quarter in the Caribbean and Transcanal trades but the market is responding in a positive way to our marketing initiatives. Whilst we anticipate revenue rates for the quarter will be down year on year, the reduction is expected not to be as great as it will be in the fourth quarter of 2000.

For 2001 as a whole, capacity for the industry in the North American market will again grow strongly, with an estimated increase of 11 per cent over the year. Whilst this increase leads us to be cautious about the general pricing environment, we believe that there are a number of positive factors from which Princess Cruises will benefit. In April Golden Princess, a sister ship to Grand Princess, will be delivered, which we anticipate will have a positive impact on both revenues and unit costs. Sky Princess, after its difficult trading in 2000, will be redeployed, leaving Princess with planned capacity growth of only four per cent. We are changing our deployments in the Transcanal and southern Caribbean for the final quarter.

In the United Kingdom, P&O Cruises will have no year over year capacity increase from May. Following on from the 45 per cent capacity increase generated by Aurora, and given the success of this ship, we anticipate a strong trading environment. In Australia, Pacific Sky is being very well received in the marketplace with strong advance bookings. Following the losses incurred in 2000 with the final season of Fair Princess we look forward to a turnaround with Pacific Sky expected to earn higher returns than she did trading as Sky Princess in North America.

We have announced today the purchase of the 49 per cent minority stake in Aida Cruises. This will allow us to integrate fully the Aida and Seetours businesses as we develop within the German market. From Spring 2002, we intend to redeploy Crown Princess out of the US market to strengthen further our position in Germany. We plan to order two new state of the art river cruise vessels for the Danube. Over time we will add to these and grow our presence in the river cruising sector which we see as another area that has substantial growth potential. These vessels will also come into service in Spring 2002. Leading up to this,

for 2001, we consider the outlook for Aida and Seetours to be positive, although there will be increased marketing and administration costs as the division prepares for the expansion in 2002.

Whilst higher fuel prices may continue to have some impact, we expect to reduce other unit costs as our business expands. This will come partly from the greater cost efficiency of new ships, and also from a cost reduction programme including global synergies from integrating certain functions, such as purchasing and systems, across the four operating units.

Cruising fundamentals

Cruising is a strong and dynamic industry that is growing rapidly. A substantial number of new vessels are scheduled for delivery in the coming years. In North America we believe that there are a number of fundamental drivers that will continue to generate increased demand. Firstly the 40 plus demographic, the prime market for cruising, is growing fast and is the richest segment of the US population. In the markets in which we operate, disposable incomes are increasing and there is greater propensity to travel. Cruise passengers tend to rate their overall satisfaction with a cruise vacation higher than that for competing land based vacations and many become repeat cruisers. We also expect to see the industry stimulate demand by stepping up its marketing and sales efforts to attract more of the 80 million Americans that surveys indicate would consider taking a cruise.

Princess Cruises continues to enjoy a favourable position in North America. The Princess brand with its Love Boat association has significant consumer awareness in North America and recent third party research has shown that it enjoys the best relations with the travel agent community of any cruise line. With the Sun Princess delivery in late 1995, Princess introduced affordable private balconies to standard cabins and a wide range of personal choice in dining and entertainment. We believe that these features created new standards within the cruise industry. We have taken these concepts further in Grand and Golden Princess and our other ships on order and further expect these ships to improve Princess Cruises' competitive position in the Caribbean, a trade where the post panamax megaships are becoming increasingly important.

Outside North America, we believe that the same favourable demographic and disposable income trends together with high satisfaction rates apply in much the same way. With many of these international markets at an earlier stage of development than North America, we believe that they can grow more quickly. P&O Princess intends to continue to redeploy ships out of the North American market to accommodate this growth.

In the United Kingdom, P&O Cruises continues to be the best-known brand in the industry, and the only line which has built modern innovative ships for this market. P&O Cruises provides added value through high quality choice, affordable balconies and a product tailored specifically to the British market. In Australia, we are now well positioned with the Pacific Sky being one of the most modern ships ever deployed on a year-round basis to that country.

Having acquired full ownership of Seetours and now Aida as well, we have high expectations for our business in Germany. We already carry more passengers than any other line and, in Aida, we have a fun product that is well suited to German lifestyle trends. The German vacation market is one of the largest outside the United States and we anticipate that the cruise industry will, by converting vacationers to cruising, be able to grow significantly over the next few years. We intend to build on our already strong position through the two Aida newbuilds, the new river vessels and the ships being transferred in from other markets.

Becoming an independent company is an exciting time for P&O Princess and the management team look forward to the future with confidence. The company has a strong trading and financial position and is well positioned with its Princess brand to take advantage of the potential of the North American market. Our strong brands, infrastructure and management in the United Kingdom, Germany and Australia, and the fiscal benefits of the UK tonnage tax, also leave us well positioned to take advantage of the globalisation of the cruise industry.

The Board

We have previously announced the Executive Directors for the Boards of the future Peninsular and Oriental Steam Navigation Company and P&O Princess Cruises plc. I should, however, like to take the

opportunity to welcome Joanne Curin, currently Finance Director of P&O Australia, with financial responsibility for P&O Ports and P&O Cold Logistics. She will become Finance Director of P&O when Nick Luff transfers to become Chief Financial Officer of P&O Princess.

On completion of the demerger, two of P&O's Non-Executive Directors, Peter Foy and Baroness Hogg, will stand down from the P&O Board, having become Non-Executive Directors of P&O Princess. They will be joined at P&O Princess by Dr John Parker. His wide knowledge of the engineering and shipbuilding industries will be of considerable value to the new company. I am pleased to welcome him. P&O's other Non-Executive Directors, Lord Hambro, Rodney Galpin and Sir John Collins, will continue in their current positions.

At the same time as we look ahead to the opportunities for both the future P&O and P&O Princess, we can look back to what has helped to establish them so strongly in their respective areas. Over the years the name P&O has become recognised throughout the world as synonymous with first class service, professionalism and integrity. This has been achieved by the commitment and dedication of all those who work for the Group. Following the demerger, two companies will inherit this reputation and the values we have created. I am determined to build on these and deliver the maximum benefit to stockholders.

The Lord Sterling of Plaistow CBE
Chairman
26 September 2000

79 Pall Mall
London SW1Y 5EJ

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2000**

	Six months to 30 June 2000	Six months to 30 June 1999 Restated	Year to 31 Dec 1999 Restated
	£m	£m	£m
Turnover: Group and share of joint ventures	2,755.3	4,090.2	7,648.2
Less: share of joint ventures' turnover	(769.6)	(716.5)	(1,511.6)
Continuing operations	1,985.7	1,673.4	3,672.0
Discontinued operations	-	1,700.3	2,464.6
Group turnover (note 3)	1,985.7	3,373.7	6,136.6
Net operating costs	(1,756.0)	(3,149.2)	(5,593.1)
Group operating profit	229.7	224.5	543.5
Share of operating results of: joint ventures	21.8	14.5	51.5
associates	6.4	10.0	14.2
Continuing operations	257.9	220.4	569.0
Discontinued operations	-	28.6	40.2
Total operating profit (note 4)	257.9	249.0	609.2
Profit on sale of properties held as fixed assets	0.2	4.1	5.1
(Loss)/profit on sale of other fixed assets and businesses	(0.2)	(6.4)	45.6
Profit on ordinary activities before interest	257.9	246.7	659.9
Net interest and similar items (note 7)	(65.8)	(75.0)	(143.3)
Profit on ordinary activities before taxation	192.1	171.7	516.6
Taxation (note 8)	(34.4)	(37.1)	(109.5)
Profit on ordinary activities after taxation	157.7	134.6	407.1
Equity minority interests	(7.0)	(5.4)	(13.9)
Profit for the period attributable to stockholders	150.7	129.2	393.2
Dividends on equity and non-equity share capital	(93.6)	(93.6)	(227.8)
Retained profit for the period	57.1	35.6	165.4
Headline profit	192.1	174.0	465.9
Earnings per £1 nominal of deferred stock	22.3p	19.4p	58.6p
Dividends per £1 nominal of deferred stock	13.5p	13.5p	33.0p

SUMMARISED GROUP BALANCE SHEET AS AT 30 JUNE 2000

	30 June 2000	30 June 1999 Restated	31 Dec 1999 Restated
	£m	£m	£m
Goodwill	172.8	39.1	105.1
Ships	2,808.7	1,908.8	2,053.1
Properties	552.1	1,417.3	1,051.9
Other fixed assets	652.9	770.2	579.5
Investments	961.1	972.9	956.3
Development and dealing properties	336.3	397.8	374.7
Stocks	114.1	132.8	108.0
Debtors	1,035.1	1,337.7	934.5
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	6,633.1	6,976.6	6,163.1
Net borrowings (note 10)	(1,465.3)	(1,692.0)	(1,335.9)
Other creditors and provisions	(1,550.6)	(1,986.6)	(1,369.4)
Equity minority interests	(86.7)	(73.9)	(82.3)
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Stockholders' funds (note 2)	3,530.5	3,224.1	3,375.5
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**SUMMARISED GROUP CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2000**

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Net cash inflow from operating activities and dividends from joint ventures and associates	456.0	351.4	681.8
Returns on investments and servicing of finance	(48.7)	(54.4)	(125.7)
Taxation paid	(21.8)	(34.3)	(84.4)
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	385.5	262.7	471.7
Purchase of fixed assets and investments	(533.9)	(188.1)	(434.0)
Sale of fixed assets and investments	529.9	33.8	45.5
Purchase of subsidiaries, joint ventures and associates	(59.5)	(151.3)	(250.1)
Sale of subsidiaries, joint ventures and associates	61.2	8.0	569.4
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	383.2	(34.9)	402.5
Equity dividends paid	(130.3)	(192.1)	(282.1)
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Net cash inflow/(outflow) before management of liquid resources and financing	252.9	(227.0)	120.4
	=====	=====	=====
Movement in net borrowings			
Net cash inflow/(outflow) before management of liquid resources and financing	252.9	(227.0)	120.4
Issues of stock (including conversion of loan stock)	4.1	153.6	166.2
Borrowings of subsidiaries (acquired)/sold	(319.8)	(169.3)	(205.9)
Other non-cash movements in net borrowings	(0.9)	(0.8)	(1.4)
Exchange movements in net borrowings	(65.7)	(56.5)	(23.2)
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(Increase)/decrease in net borrowings	(129.4)	(300.0)	56.1
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NOTE TO EDITORS

1. New accounting standards

The Group has adopted Financial Reporting Standard 15 (Tangible fixed assets) and UITF abstract 24 (Accounting for start-up costs) in preparing this interim statement.

Through the application of FRS15, cold storage properties have been restated at historic cost less depreciation and transferred to other fixed assets and under UITF abstract 24, prior year start-up costs previously capitalised in ships, other fixed assets and debtors within Cruises and Logistics have been charged to the profit and loss account. This has resulted in an adjustment to prior year reserves and a restatement of comparative figures. The changes to the balance sheet are a decrease in ships of £53.2 million at 30 June 1999 (31 December 1999 £53.7 million), a decrease in properties of £72.5 million at 30 June 1999 (31 December 1999 £98.4 million), an increase in other fixed assets of £48.1 million at 30 June 1999 (31 December 1999 £68.4 million) and a decrease in debtors of £3.7 million (31 December 1999 £1.7 million increase). The consequential reduction in reserves is £81.3 million at 30 June 1999 (31 December 1999 £82.0 million). The effect on the results for the period ended 30 June 2000 is to decrease operating profit by £4.4 million (30 June 1999 £11.4 million : 31 December 1999 £8.8 million).

Also under FRS15, from 1 January 2000 amortisation is being charged on all freehold and leasehold properties occupied by Group companies to write off the cost of these properties to their estimated residual value on a straight line basis over the expected remaining useful life of the property concerned. The additional amortisation charge for the six months to 30 June 2000 in respect of these properties is £3.5 million. Prior year figures have not been restated in respect of property amortisation.

2. Reconciliation of movements in stockholders' funds

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Profit for the period attributable to stockholders	150.7	129.2	393.2
Surplus on valuation of properties including those held by joint ventures and associates	-	-	3.8
Taxation on valuation surplus	-	-	(27.8)
Exchange movements on foreign currency net investments	118.2	112.4	34.3
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Total recognised gains and losses for the period	268.9	241.6	403.5
Dividends	(93.6)	(93.6)	(227.8)
New stock issued	4.1	153.6	166.2
Goodwill on disposals	-	-	111.1
Fair value adjustments to existing interests in net assets on acquisition of subsidiary	(24.4)	-	-
	<hr/>	<hr/>	<hr/>
Net change in stockholders' funds	155.0	301.6	453.0
Stockholders' funds at the beginning of the period	3,375.5	2,922.5	2,922.5
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Stockholders' funds at the end of the period	3,530.5	3,224.1	3,375.5
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The stockholders' funds at the beginning of the year, as previously reported, were £3,457.5 million (1999 £2,987.7 million) before deducting the prior year adjustment of £82.0 million (1999 £65.2 million).

3. Group Turnover

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Continuing operations			
Ports	233.7	144.8	368.2
Ferries	197.5	201.1	433.2
Logistics	527.6	500.5	1,020.8
Cargo shipping	32.5	-	-
Property and related businesses	249.1	208.3	544.5
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	1,240.4	1,054.7	2,366.7
Cruises	745.3	618.7	1,305.3
	-----	-----	-----
Total continuing operations	1,985.7	1,673.4	3,672.0
Discontinued operations	-	1,700.3	2,464.6
	-----	-----	-----
	1,985.7	3,373.7	6,136.6
	=====	=====	=====

4. Total operating profit

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Continuing operations			
Ports	40.3	26.9	73.1
Ferries	(7.4)	19.2	60.0
Logistics	11.6	9.7	24.2
Cargo shipping	13.2	(23.5)	(19.2)
Property	90.9	88.8	188.7
	<hr/>	<hr/>	<hr/>
	148.6	121.1	326.8
Cruises	109.3	99.3	242.2
	<hr/>	<hr/>	<hr/>
Total continuing operations	257.9	220.4	569.0
Discontinued operations	-	28.6	40.2
	<hr/>	<hr/>	<hr/>
	257.9	249.0	609.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Maritime services, previously included within Logistics, is now included within Ports.

Additional information on the results for P&O Princess Cruises is included in the appendix to these interim results.

5. Net operating assets

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Continuing operations			
Ports	818.1	639.3	672.2
Ferries	417.7	411.1	416.6
Logistics	379.4	284.1	318.6
Cargo shipping	1,077.3	886.9	853.6
Property	876.1	1,861.1	1,519.2
	<hr/>	<hr/>	<hr/>
	3,568.6	4,082.5	3,780.2
Cruises	2,233.3	1,638.7	1,882.8
	<hr/>	<hr/>	<hr/>

Total continuing operations	5,801.9	5,721.2	5,663.0
Discontinued operations	-	154.6	-
	<u>5,801.9</u>	<u>5,875.8</u>	<u>5,663.0</u>
	=====	=====	=====

6. No demerger costs have been provided in this interim statement.

7. Net interest and similar items

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Group	(51.3)	(57.3)	(110.2)
Joint ventures	(13.8)	(16.4)	(31.1)
Associates	(0.7)	(1.3)	(2.0)
	<u>(65.8)</u>	<u>(75.0)</u>	<u>(143.3)</u>
	=====	=====	=====

8. Taxation

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
United Kingdom	(7.2)	(22.2)	(25.2)
Overseas	(23.2)	(11.4)	(77.5)
Joint ventures	(3.2)	(2.5)	(3.7)
Associates	(0.8)	(1.0)	(3.1)
	<u>(34.4)</u>	<u>(37.1)</u>	<u>(109.5)</u>
	=====	=====	=====

9. Dividends

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 31 Dec 1999
	£m	£m	£m
Preferred, convertible and concessionary stock	(1.9)	(3.8)	(7.6)
Deferred stock			

Interim	(91.7)	(89.8)	(89.8)
Final	-	-	(130.4)
	<hr/>	<hr/>	<hr/>
	(93.6)	(93.6)	(227.8)
	<hr/>	<hr/>	<hr/>

10. Net Borrowings

Net borrowings include loans of £1,822.1 million (30 June 1999 £1,763.5 million : 31 December 1999 £1,423.7 million), short term borrowings and bank overdrafts of £40.5 million (30 June 1999 £76.5 million : 31 December 1999 £22.7 million) less short term investments and cash of £397.3 million (30 June 1999 £148.0 million : 31 December 1999 £110.5 million). In the Company's statutory accounts, short term borrowings and overdrafts are included within other creditors, and short term investments and cash are included within current assets. The debt/equity ratio, taking net borrowings as a percentage of stockholders' funds, is 41.5% (30 June 1999 52.5% : 31 December 1999 39.6%).

11. The figures are prepared using the same accounting policies as for the year to 31 December 1999 except for the adjustments required following implementation of Financial Reporting Standard 15 and UITF abstract 24, as described in note 1. This has resulted in a prior year adjustment and the restatement of certain comparative figures. The figures for the six months to 30 June 2000 are unaudited.

The figures for the year to 31 December 1999 are extracted from the statutory accounts for that year, which have been delivered to the registrar of companies, and on which the auditors gave an unqualified report, without any statement under section 237 (2) or (3) of the Companies Act 1985. The 2000 interim results will be posted to stockholders on 26 September 2000 and will be available for inspection from that date at the head office of the Company at 79 Pall Mall, London SW1Y 5EJ.

(ends)

APPENDIX

Results for P&O Princess Cruises for the six months to 30 June 2000

The results of the cruise division of The Peninsular and Oriental Steam Navigation Company, due shortly to be demerged to form P&O Princess Cruises, for the six months to 30 June 2000 are as follows:

US\$ million	Six months to 30 June	
	2000	1999
Turnover (gross revenue)	1,161.0	980.0
Direct operating costs	(749.6)	(615.8)
Selling and administrative expenses	(171.9)	(149.3)
Depreciation and amortisation	(71.1)	(58.1)
	<hr/>	<hr/>
Operating profit	168.4	156.8
Share of operating results of joint ventures	-	(0.3)
	<hr/>	<hr/>
Total operating profit	168.4	156.5
Profit on sale of business	0.2	-

Net interest and similar items	(21.6)	(14.2)
Profit before taxation	147.0	142.3
Taxation	(19.1)	(18.5)
Profit after taxation	127.9	123.8
Equity minority interests	(0.8)	-
	127.1	123.8

Operating statistics	Three months to 30 June		Six months to 30 June	
	2000	1999	2000	1999
Passenger cruise days				
North America	1,531,576	1,315,731	2,967,766	2,692,576
Europe and Australia	685,660	402,759	1,243,155	858,834
Total	2,217,236	1,718,490	4,210,921	3,551,410
<u>Occupancy</u>				
North America	100.1%	101.7%	100.0%	99.5%
Europe and Australia	97.3%	98.3%	96.7%	97.0%
Total	99.2%	100.9%	99.0%	98.9%

Change in net revenue yields

- absolute	(4%)	(1%)
- like for like basis	(1%)	(1%)

The above results for P&O Princess Cruises have been prepared under the accounting policies it intends to adopt following demerger from the P&O Group. P&O Princess Cruises' accounting policies do not differ materially from those applied by the P&O Group and include the adoption of FRS 15 and UITF abstract 24.

(ends)